

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

| | | | |
|-------------------------------------|--|-----------------------------|----------------|
| Applicant: | Asian Pacific Health Care Venture, Inc. ("APHCV") 1530 Hillhurst Avenue Los Angeles, CA 90027 Los Angeles County | Amount Requested: | \$750,000 |
| | | Requested Loan Term: | 15 years |
| | | Date Requested: | April 24, 2008 |
| | | Resolution Number: | HII-220 |
| Project Site: | 1500 and 1513 West Temple Street, Los Angeles, CA 90026 | | |
| Facility Type: | Community Clinic Facility (Federally Qualified Health Center) | | |
| Prior HELP II Loan Borrower: | Yes | | |

Background: APHCV was incorporated in 1987 to provide primary care services to socially and economically depressed Asian, Pacific Islanders and other populations in Los Angeles area. In 1997, it was designated a Federally Qualified Health Center. It derives significant support through grants and contracts with health agencies of federal, state and Los Angeles county governments.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing variable interest rate line of credit (LOC) in the amount of \$750,000 with an expected interest rate of 4.5% (the LOC has not yet closed nor has the interest rate been set; therefore, APHCV can only estimate the anticipated interest rate for this loan.) Refinancing this loan at a lower fixed interest rate of 3% will result in an estimated interest savings of approximately \$280,000 over the life of the proposed HELP II loan, when comparing the HELP II interest rate to the current market fixed interest rate for commercial loans of approximately 7%.

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148).
- Gross revenue pledge.
- First lien position on properties located at 1500 & 1513 West Temple Street, Los Angeles, CA 90026.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 50%).

Financial Overview: APHCV's income statement appears to exhibit a profitable operation and consistent increases in unrestricted net assets. Its balance sheet appears adequate with good liquidity and satisfactory debt service coverage (2.07x) to meet its repayments for the proposed HELP II loan.

Sources of Funds

| | |
|----------------|------------------|
| HELP II Loan | \$750,000 |
| Borrower Funds | <u>11,500</u> |
| Total Sources | <u>\$761,000</u> |

Uses of Funds

| | |
|-------------------------|------------------|
| Refinance LOC bank loan | \$750,000 |
| Financing costs | <u>11,500</u> |
| Total Uses | <u>\$761,500</u> |

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for Asian Pacific Health Care Venture, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

April 24, 2008

Asian Pacific Health Care Venture, Inc. (“APHCV”)

Resolution Number: HII-220

I. PURPOSE OF FINANCING

***Refinance LOC bank loan* \$ 750,000**

APHCV is purchasing a 6,000 square foot commercial-office building located at 1500/1513 West Temple Street in Los Angeles for \$1.5 million. APHCV intends to renovate the building for approximately \$200,000, which will enable it to relocate the administrative offices from its main clinic located at 1530 Hillhurst (Hillhurst) Avenue in Los Angeles. This will create space for expansion of women’s health services at its Hillhurst facility, which APHCV expects will ultimately provide services to an additional 2,500 patients per year.

The sale and purchase agreement for the acquisition of the property requires close of escrow by early May 2008. Even if the Authority approves the proposed HELP II loan at the April 24, 2008 meeting, the Authority cannot process all closing documents to fund the purchase of this property by early May 2008. In the interim, APHCV is obtaining a LOC of \$750,000 from Wells Fargo Bank (Wells Fargo), in addition to a 2nd loan of \$400,000 from the California Primary Care Association (CPCA). APHCV also plans to use \$350,000 of internal funds. The Wells Fargo loan provides for a variable interest rate loan likely commencing at 4.5%, to be fully secured by short-term investments. The HELP II loan will refinance the Wells Fargo’s LOC loan of \$750,000. The CPCA loan is a fully amortized loan over a five-year term at a fixed interest rate of 3%, to be secured by second lien on the property. The CPCA loan will be subordinate to the HELP II loan, as they have agreed to subordinate their loan upon closing of the HELP II loan.

Refinancing will provide APHCV with a low fixed interest rate and stable debt payments compared to the Wells Fargo’s LOC loan. The estimated value of the property is \$1.5 million, leading to a loan to value ratio of 50%. CHFFA will require a full appraisal report on the property prior to closing the loan.

| | | |
|---|--------------|--------------------------|
| <i>Financing Costs</i> | | <u>11,500</u> |
| Escrow fee | \$2,125 | |
| Authority fee | <u>9,375</u> | |
| <i>Total Uses of Funds</i> | | <u>\$ 761,500</u> |

II. FINANCIAL STATEMENTS AND ANALYSIS

Asian Pacific Health Care Venture, Inc.
Statement of Activities
(Unrestricted)

| | For the year ended September 30 | | |
|---|--|---------------------|---------------------|
| | 2007 | 2006 | 2005 |
| <u>Revenue</u> | | | |
| Patient and third party revenue, net | \$ 3,598,787 | \$ 3,005,881 | \$ 2,971,169 |
| Grant revenue | 4,012,779 | 3,375,095 | 3,091,178 |
| Contributions | 2,063,062 | 2,177,599 | 2,150,739 |
| Other | 205,470 | 185,979 | 134,229 |
| Net assets released from restrictions-revenue | 118,291 | 412,725 | 446,955 |
| Net assets released from restrictions-capital | 141,955 | 157,924 | 61,760 |
| Total support and revenue | <u>10,140,344</u> | <u>9,315,203</u> | <u>8,856,030</u> |
| <u>Expenses</u> | | | |
| Salaries and wages | 4,388,220 | 3,880,257 | 3,384,191 |
| Payroll taxes and employee benefits | 963,712 | 887,735 | 762,578 |
| Medical supplies and drugs | 2,343,256 | 2,295,184 | 2,201,330 |
| Purchased services | 664,828 | 631,342 | 568,427 |
| Occupancy costs | 186,755 | 151,144 | 171,848 |
| Repairs and maintenance | 5,211 | 6,460 | 6,198 |
| Medical contractual services | 593,170 | 631,883 | 467,956 |
| Depreciation and amortization | 199,242 | 179,165 | 182,694 |
| Insurance | 50,310 | 56,890 | 59,611 |
| Other supplies | 117,803 | 70,701 | 72,373 |
| Communications | 32,561 | 29,782 | 40,249 |
| Travel, conferences and meetings | 83,710 | 60,492 | 55,788 |
| Provision for bad debts | 23,648 | 25,600 | 84,100 |
| Other | 338,025 | 205,954 | 164,066 |
| Total expenses | <u>9,990,451</u> | <u>9,112,589</u> | <u>8,221,409</u> |
| Change in net assets | 149,893 | 202,614 | 634,621 |
| Net assets at beginning of year | 5,179,400 | 4,926,379 | 4,291,758 |
| Prior year adjustment | - | 50,407 | - |
| Net assets end of year | <u>\$ 5,329,293</u> | <u>\$ 5,179,400</u> | <u>\$ 4,926,379</u> |

Asian Pacific Health Care Venture, Inc.
Statement of Financial Position

| | As of September 30, | | |
|--|----------------------------|--------------|--------------|
| | 2007 | 2006 | 2005 |
| <u>Assets</u> | | | |
| Cash and cash equivalent | \$ 479,489 | \$ 621,508 | \$ 245,469 |
| Short term cash investments | 1,225,521 | 529,813 | - |
| Grants and other accounts receivable | 757,665 | 487,430 | 783,522 |
| Third party payor settlements, current portion | 227,221 | 204,162 | 272,451 |
| Prepaid expenses | 96,258 | 34,202 | 45,777 |
| Total Current Assets | 2,786,154 | 1,877,115 | 1,347,219 |
| Estimated third party payor settlements | 368,421 | 504,879 | 354,938 |
| Property and equipment, net | 2,081,446 | 2,071,395 | 2,000,672 |
| Cash investments, non-current | 1,426,000 | 1,996,000 | 2,622,327 |
| Total Assets | 6,662,021 | 6,449,389 | 6,325,156 |
| <u>Liabilities & Net Assets</u> | | | |
| Accounts payable and accrued expenses | \$ 504,292 | \$ 332,742 | \$ 397,478 |
| Accrued compensation and related liabilities | 409,654 | 350,972 | 254,815 |
| Current portion of other liabilities | 20,000 | 20,000 | 20,000 |
| Deferred revenue | 126,950 | 156,152 | 45,380 |
| Total Current Liabilities | 1,060,896 | 859,866 | 717,673 |
| Other liabilities - net of current portion | 209,384 | 229,384 | 249,384 |
| Total Liabilities | 1,270,280 | 1,089,250 | 967,057 |
| Unrestricted Net Assets | 5,329,293 | 5,179,400 | 4,926,379 |
| Temporarily Restricted Net Assets | 62,448 | 180,739 | 431,720 |
| Total Net Assets | 5,391,741 | 5,360,139 | 5,358,099 |
| Total Liabilities & Net Assets | \$ 6,662,021 | \$ 6,449,389 | \$ 6,325,156 |

Financial Ratios:

| | Proforma (a) | | | |
|----------------------------------|---------------------|--------------|--------------|--------------|
| Debt Service Coverage (x) | 2.07 | 17.46 | 19.09 | 40.87 |
| Debt/Unrestricted Net Assets (x) | 0.26 | 0.04 | 0.05 | 0.05 |
| Margin (%) | | 1.50 | 2.21 | 7.17 |
| Current Ratio (x) | | 2.63 | 2.18 | 1.88 |

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

APHCV's income statement appears to exhibit profitable operations with increases in unrestricted net assets.

APHCV appears to have a proven track record with a successful operating history since 1987. Although profitability has declined each year, APHCV continues to experience positive operating results for the last three fiscal years, with increases in unrestricted net assets. APHCV's income statement appears to exhibit consistent revenue growth supported by its ability to provide services to an increasing number of clients, as clients served increased over review period increased from 8,819 in FY 2005 to 11,171 in FY 2007.

Important Facts to Note:

- The unrestricted net assets increased from \$4.9 million in FY 2005 to \$5.3 million in FY2007, due to continued profitability from FY 2005 to FY 2007.
- Total revenue increased from \$8.8 million in FY 2005 to \$10.1 million in FY 2007, due to significant increases in patient-third party revenue and grant revenue.
- Patient and third party revenue increased 21% due to increases in patient visits from 34,067 in FY 2005 to 42,262 in FY 2007. Grant revenue increased 29% due to the funding of many grants from Los Angeles County and the State, including a CHFFA Community Clinic Grant.

Financial Discussion – Statement of Financial Position (Balance Sheet)

APHCV's balance sheet appears strong with good liquidity and satisfactory debt service coverage to meet its repayments for the proposed HELP II loan.

APHCV appears to have a strong balance sheet, which has grown over the review period from FY 2005 to FY 2007, including sufficient working capital, low leverage, and increasing total net assets.

Important Facts to Note:

- The total current assets increased 106% from FY 2005 to FY 2007, while total current liabilities only increased 47% from FY 2005 to FY 2007. APHCV has solid liquidity with a current ratio exceeding 1.88x over the review period.

- The increases in total current assets is attributed to a 131% increase in short term cash investments from FY 2005 to FY 2007, as all interest earnings were reinvested in short term securities.
- APHCV was able to grow its balance sheet with a relatively low leverage financial structure. The proforma debt to unrestricted net assets ratio is only .26x and the proforma debt service coverage ratio is 2.07x, thus APHCV likely has the ability to comfortably meet its loan repayment obligation for the proposed HELP II Loan.

III. UTILIZATION STATISTICS

**Clients Served / (Patient Visits)
Fiscal Year Ended September 30**

| | 2007 | 2006 | 2005 |
|---------------|-------------------|------------------|------------------|
| Totals | 11,171 / (42,262) | 9,356 / (37,320) | 8,819 / (34,067) |

IV. ORGANIZATION

Background

APHCV, a not-for-profit organization was incorporated in 1987 for the purpose of providing culturally competent access to quality health care services to socially and economically depressed Asian, Pacific Islanders, and other populations living in Hollywood, North Hollywood and the greater downtown area of Los Angeles. In early 1987, it obtained a Federal 330 grant from the Federal Bureau of Primary Health Care to began providing primary care services through subcontracted clinics.

In June 1999, APHCV purchased the building it had been leasing at 1530 Hillhurst Avenue in Hollywood. In 2001, APHCV completed renovation of the building, resulting in the opening of a dispensary and full utilization of the 23 exam rooms on both floors. In the same year it opened a school based health clinic on the campus of John Marshall High School where full primary care services are provided eight hours per day, three days a week.

APHCV was designated as a Federally Qualified Health Center for Medicare and Medi-Cal reimbursement effective June 18, 1997. It derives significant support through grants and contracts with the U.S. Department of Health and Human Services, Los Angeles County Department of Health Services and the State of California Department of Health Care Services.

Licenses

APHCV is licensed by the State Department of Public Health Services to operate and maintain a Community Clinic at 1530 Hillhurst Avenue, Los Angeles.

V. OUTSTANDING DEBT

| <u>Date Issued</u> | <u>Original Amount</u> | <u>Amount Outstanding* As of June 30, 2007</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|--|------------------------|--|--|
| Existing Long-Term Debt: | | | |
| City of Los Angeles | \$400,000 | \$229,384 | \$229,384 |
| Wells Fargo + | 750,000 | | 0 |
| Proposed CHFFA HELP II, 2008 | | N/A | 750,000 |
| TOTAL DEBT | | \$229,384 | \$979,384 |

*Includes current portion of long-term debt.

+CHFFA HELP II loan will refinance Well Fargo loan, which will provide a LOC of \$750,000 to purchase property located at 1500/1513 West Temple Street, expected to close in early May 2008.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: APHCV has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): APHCV has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Asian Pacific Health Care Venture, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.